

Message Text

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ACTION EUR-25

INFO OCT-01 ADP-00 EURE-00 AID-20 CEA-02 CIAE-00 COME-00

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P R 081346 Z MAY 73

FM USMISSION OECD PARIS

TO SECSTATE WASHDC PRIORITY 9526

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY OTTAWA

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LIMITED OFFICIAL USE SECTION 1 OF 2 OECD PARIS 12521

E. O.: 11652 N/A

TAGS: ECON, OECD

SUBJ: OECD SHORT- TERM ECONOMIC FORECASTERS, MAY 3-4

REF: (A) OECD 10265; (B) OECD 11213; (C) OECD A-59;

(D) OECD A-15

1. SUMMARY: COUNTRY- BY- COUNTRY REVIEW WITH NATIONAL EXPERTS
ON BASIS SECRETARIAT ANALYSIS IN DES/ NI/ F(73)1

CONFIRMED VIEW THAT REAL GROWTH OF OUTPUT AND TRADE WILL BE
BUOYANT FOR OECD AREA OVER NEXT 12-18 MONTHS. COUNTRIES
WERE LESS IN AGREEMENT WITH REGARD TO WORLD TRADE PRICES,
WITH SMALLER COUNTRIES IN PARTICULAR CONCERNED WITH HIGH
RISE OF IMPORT PRICES. DOMESTIC INFLATION WAS ALSO ACK-
NOWLEDGED AS MAJOR RISK IN MOST COUNTRIES. SEPTEL
TO DEPT WILL REPORT ON GROUP' S DISCUSSION OF SECRETARIAT' S
ANALYTICAL WORK ON MEASUREMENT OF POTENTIAL OUTPUT.

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END SUMMARY.

2. U. S. US REP (MURRAY FOSS, CEA) REPORTED ON FIRST
QUARTER PRELIMINARY STATISTICS SHOWING STRONGER- THAN-

EXPECTED GROWTH BOTH NOMINAL AND REAL GNP. SECRETARIAT FORECAST FOR 1973 SLIGHTLY STRONGER ON FIXED INVESTMENT, WHEREAS US SLIGHTLY STRONGER ON PRIVATE CONSUMPTION. CONCERNING TIME- PATCH, US FORECASTS FOR 1974 MORE TAPERING-OFF OF GROWTH AND PRICE INCREASES THAN SECRETARIAT. LATTER NOTED IT WAS ALSO REVISING UPWARD ITS OWN 1973 FORECAST REAL GROWTH (7 1/4 TO 7 1/2 PERCENT) IN LIGHT RECENT DATA, ESPECIALLY AS CONCERNS BUSINESS FIXED INVESTMENT. ON EXTERNAL SIDE, US REP (LEDERER) DID NOT PROVIDE B/ P FORECAST, BUT INDICATED TRENDS CERTAIN SPECIAL FACTORS (AGRI-CUTLRAL EXPORTS AND OIL IMPORTS). HE EXPLAINED IT WAS NOT CERTAIN WHEN BENEFITS OF FEBRUARY DEVALUATION WOULD BEGIN TO BE FELT.

3. CANADA. CANADIANS WERE FORECASTING STRONGER GROWTH THAN SECRETARIAT, BUT WERE LESS OPTIMISTIC ABOUT PRICE DEVELOPMENTS. ON EXTERNAL SIDE, THEY WERE MORE OPTIMISTIC THAN SECRETARIAT ON EXPORTS BUT MORE PESSIMISTIC ABOUT IMPORTS. THEY AGREED THAT TRADE BALANCE WOULD TEND TO DETERIORATE, BUT THEY FORESAW THIS TAKING EFFECT MORE IN 1974 THAN IN 1973. PART OF FORECAST TRADE DETERIORATION BASED ON SLOWER GROWTH IN US NEXT YEAR. CANADIAN MONETARY POLICY DESCRIBED AS ACCOMMODATING, WITH SOME UPWARD MOVEMENT OF INTEREST RATES FORESEEN IN STEP WITH US RATES.

4. GERMANY. GERMANS FORECAST INCREASE OF REAL GNP IN 1973 AT 6 PERCENT (OR ABOVE) BASED ON PRESENT POLICY STANCE, WITH GNP PRICE DEFLATOR AT 6.5. THIS IN LINE WITH SECRETARIAT' S REVISED FORECAST, AND POINT IN GERMAN REP' S VIEW TO CLEAR RISK OF EXCESSIVE DEMAND. GERMANS FORECASTING PARTICULARLY STRONG INVESTMENT IN MACHINERY AND EQUIPMENT. ON EXTERNAL SIDE, GERMANS FORECAST LOWER TRADE BALANCE DUE IN PART TO ASSUMPTION OF HIGHER PRICES FOR IMPORTS THAN FORECAST BY SECRETARIAT. THEY SAID CURRENT BALANCE COULD END UP CLOSE TO ZERO RATHER THAN WITH SURPLUS FORECAST BY SECRETARIAT. HOWEVER, GERMAN REP QUALIFIED ALL OF ABOVE BY NOTING THAT " UNCHANGED POLICY ASSUMPTION" UNDERLYING FORECASTS WAS LIMITED OFFICIAL USE
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HIGHLY UNREALISTIC. HE EXPECTED NEW POLICY MEASURES TO REDUCE RATE OF INCREASE DEMAND, ESPECIALLY PUBLIC INVESTMENT.

5. JAPAN. JAPANESE DELS HAD NO SUBSTANTIAL DIFFERENCE WITH SECRETARIAT' S FORECASTS. THEY EXPECTED LITTLE OVER 11 PERCENT REAL GROWTH IN 1973 (OVER 1972), SLIGHTLY DOWN FROM ABOUT 15 PERCENT RATE PREVAILING FOURTH QUARTER LAST YEAR. SLOWER RATE INDUCED BY POLICY RESTRAINT, ESPECIALLY ON MONETARY SIDE, IN ORDER COMBAT INFLATION. ON EXTERNAL SIDE, JAPANESE FELT THAT FLOATING RATE EXPERIENCE HAD BEEN FAVORABLE. IMPORTS WERE PICKING

UP, CAPITAL WAS FLOWING OUT AND RESERVES WERE DECLINING. JAPANESE FORECAST CURRENT ACCOUNT SURPLUS 1973 AT US \$ 5.1 BIL. AS COMPARED SECRETARIAT'S US \$ 7.0 BIL. ON VOLUME OF TRADE, SECRETARIAT EXPRESSED SURPRISE (AS IN GERMAN CASE AS WELL) WITH JAPANESE ASSUMPTION OF PRATICALLY NO TERMS OF TRADE GAIN DESPITE RECENT, SIGNIFICANT REVALUATION. SECRETARIAT ALSO EXPRESSED CONCERN WITH GOJ'S APPARENT DECISION TO GROW OVER REST OF 1973 AT RATE LESS THAN CAPACITY, THUS IMPLYING THAT CONTINUED BUILDUP OF SLACK WIL OCCUR. SECRETARIAT NOTED THIS RAISED QUESTION ABOUT B/ P TURNAROUND.

6. FRANCE. FRENCH SAID THEY HAD RAISED THEIR 1973 FORECAST OF REAL GROWTH (FRENCH CONCEPT OF GDP) FROM 5.8 PERCENT TO 6.2 PERCENT. SIMILARLY, THEY HAD RAISED THEIR FORECAST OF THE RISE IN CONSUMER PRICES FROM 5.6 PERCENT TO 6.3 PERCENT. THEY FORESAW DEVELOPMENT OF CAPACITY LIMITATIONS WHICH WOULD RESULT PARTICULARLY IN INCREASE OF IMPORTS. IMPORT PRICES WERE ALSO EXPECTED TO RISE DUE COMMODITY PRICE RISES AND REVALUATIONS IN IMPORT MARKETS. WITHOUT BEING MORE PRECISE, THEY IMPLIED SECRETARIAT'S 1973 CURRENT ACCOUNT SURPLUS FORECAST (SDR 1.0 BILLION) TO BE TOO HIGH. SECRE-TARIAT SAID IT WOULD NOW PROJECT SLIGHTLY LOWER SURPLUS.

7. UNITED KINGDOM. BRITISH DEL DESCRIBED ECONOMY AS " TAKING OFF" LIKE A ROCKET." THE STOCK CYCLE HAD REVERSED. CONSUMPTION WAS PARTICULARLY STRONG, ALTHOUGH SOME OF IT DUE TO ANTICAIPATION OF VAT. FOOD PRICES WERE UP, BUT WAGE RATES HAD GROWN RELATIVELY SLOWLY. UNEMPLOYMENT WAS LIMITED OFFICIAL USE
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FALLING RAPIDLY. PRICES WERE LIEKLY TO SURGE IN NEXT FEW MONTHS, BUT HOPEFULLY WOULD SLOWDOWN BY THE FALL WHEN STAGE III REACHED. FASTER GROWTH WOULD AFFECT EXTERNAL SIDE, BUT BRITISH REP THOUGHT SECRETARIAT FORECAST OF CURRENT ACCOUNT DEFICIT IN 1973 ON ORDER US\$ 1.8 BILLION WAS TOO MUCH. BRITISH EXPECTED TO GET INTO FAVORABLE PART OF J- CURVE BY END OF YEAR.

8. ITALY. ITALIAN EXPERTS REPORTED THAT LOSS OF PRODUCTION DUE STRIKES IN FIRST QUARTER MEANT LESS GROWTH REAL GNP IN 1973 (ABOUT 5 PERCENT AS OPPOSED TO SECRETARIAT'S 5.5 PERCENT). THEY AGREED ON 8 PERCENT GNP PRICE DE-FLATOR IN 1973, BUT TARGETTED 6 TO 6.5 PERCENT IN 1974, WITH REAL GROWTH ALSO PROGRESSING AT 6 PERCENT. ITALIANS EXPECTED CURRENT ACCOUNT SURPLUS 1973 OF SDR 1.6 BIL., AS COMPARED SECRETARIAT'S 2.4 BIL.

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9. SMALLER COUNTRIES. GENERALLY SPEAKING, SMALLER COUNTRIES WERE MORE BUOYANT THAN SECRETARIAT WITH REGARD TO EVOLUTION OF DOMESTIC DEMAND, BUT LESS OPTIMISTIC ABOUT EXPORT PROSPECTS AND DEFINITELY CONCERNED ABOUT INCREASE OF IMPORT PRICES. BOTH BELGIANS AND DUTCH DISAGREED WITH SECRETARIAT ON SIZE OF THEIR PROJECTED CURRENT BALANCES FOR 1973, THINKING THAT SECRETARIAT WAS OVERESTIMATING LIKELY SIZE OF THEIR SURPLUSES. OTHER SMALLER COUNTRIES ALSO TENDED TO ESTIMATE LESS FAVORABLE CURRENT ACCOUNT POSITIONS FOR THEMSELVES THAN SECRETARIAT.

10. TRADE PROSPECTS. ON BASIS COUNTRIES' UPWARD REVISED GROWTH RATES, SECRETARIAT ESTIMATED ONE PERCENT FASTER
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INCREASE OF VOLUME OECD IMPORTS IN 1973 THAN COUNTRIES WERE ESTIMATING FOR THEMSELVES (13 1/4 PERCENT AS COMPARED 12 1/4). SECRETARIAT INDICATED THAT TOTAL OF COUNTRIES' S ESTIMATES OF INCREASE THEIR EXPORTS IN VOLUME WAS ONLY SLIGHTLY LESS THAN WHAT THEY AS A GROUP WERE ESTIMATING TO BE INCREASE OF THEIR IMPORTS (11 3/4 PERCENT INCREASE OF EXPORTS AS COMPARED

12 PERCENT INCREASE. COUNTRIES AND SECRETARIAT DISAGREED
MORE ON TRADE PRICES, ESPECIALLY OF IMPORTS, BUT SECRETARIAT
SAID IT NOW WOULD REVISE UPWARD ITS OWN ESTIMATES OF IMPORT
PRICES FOR SOME COUNTRIES.

11. MEASUREMENT OF POTENTIAL OUTPUT - WILL BE REPORTED
BY SEPTEL TO DEPT ONLY.
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